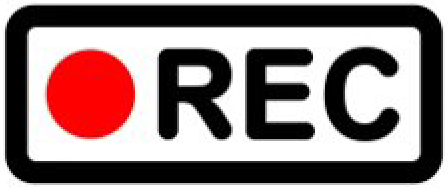
PR24 Draft Determinations: non-household workshop

14 August 2024

Housekeeping

- Please note that this meeting will be recorded and published on the MOSL website
- When we get to the discussion, please put your hand up to ask a question rather than using the chat function
- When asking a question please tell us your name and organisation



Purpose of this session

- To recap on the PR24 process, context and timeline
- To consider the implications for the non-household market
- To see a collated view of the non-household inclusions in Ofwat’s Draft Determinations
- To focus on the water efficiency, metering, and BR-MeX aspects:
  - What this means for wholesalers and retailers (including around collaboration)
- To inform responses to the Draft Determination's consultation

Agenda

Item	Time	Agenda Item	Presenter
1.	12.30-12.40	Welcome and context	Lyvia Nabarro, MOSL (Chair)
2.	12.40-12.55	Ofwat: a reminder of the context/timelines/next steps for PR24	Shaun Kent, Director, Ofwat Business Retail team
3.	12.55-13.10	Part 1: PR24 draft determinations – Non-household smart metering Part 2: PR24 draft determinations – Non-household water efficiency	Martin Hall, MOSL James Higgins, MOSL
5.	13:10-13.35	Discussion 1: smart metering and water efficiency	Led by Lyvia Nabarro
6.	13.35-13.45	Part 3: PR24 draft determinations BR-MeX – Proposed approach, rewards/penalties	James Higgins, MOSL
7.	13:45–13.55	Discussion 2: BR-MeX	Led by Lyvia Nabarro
8.	13.55-14.00	Next steps, feedback, close	Lyvia Nabarro, MOSL

PR24 context

Shaun Kent, Director, Ofwat Business Retail team

PR24 Draft determinations

Our proposals:

- Invest £10 billion to reduce harm from storm overflows
- Cut leakage by 13% – to the lowest level since privatisation
- Spend £4 billion to boost our water supply
- Reduce operational greenhouse gas emissions by 11%
- Deliver £6 billion of upgrades to combat nutrient pollution
- Triple the replacement rates of water mains pipes
- Reduce sewer flooding in homes by 13%
- Implement the biggest smart meter rollout to date, with 10 million delivered
- Deliver £2 billion of nature-based solutions
- Average bill increase – estimate over period, before inflation:
    - household customers ≈£94 or ≈21%
    - NHH business customers wholesale charge increase ≈27%

Further underpinned by PR24 Performance Commitments

Customer service and operational performance

C-MeX

D-MeX

BR-MeX

Measures of experience

Water supply interruptions

Compliance risk index

Water quality contacts

Internal sewer flooding

External sewer flooding

Environmental outcomes

Water demand (per capita consumption, **business demand** and leakage)

Operational greenhouse gas emissions

Pollution incidents (serious and total)

Discharge compliance

Bathing water quality

Bathing water quality

Storm overflows

Biodiversity

Asset health performance

Repairs to burst mains

Sewer collapses

Unplanned outage

Progressing 8 bespoke performance commitments

Local circumstances with compelling evidence

Poor performance compared to other companies

Supported by Ofwat's wider insights, monitoring and reporting frameworks

Outcomes – performance targets

MOSL

Cut leakage by 13% – to the lowest level since privatisation	Reduce operational greenhouse gas emissions by 11%	Reduce sewer flooding in homes by 13%	Reduce external sewer flooding by 18%
Water consumption reduced by 20% per person per day (2038 target) NHH market – 7.7% reduction	Drinking water quality – customer contacts about water supply reduced by 19%	Zero serious pollution incidents	30% reduction in total pollution incidents

PR24 Renewed emphasis on business retail market

PR24 draft determinations confirm introduction of two key areas for wholesalers regarding business retail market:

1. Water efficiency – NHH sector

- PC to reduce non-household demand by 7.7% by 2029-30, from 2019-20 baseline – with accompanying commitments regarding Wholesaler – Retailer collaboration.
- Smart meters – the default standard
- Data sharing standards
- Water efficiency fund

2. Performance Commitment (PC) for Wholesaler performance in business retail market – BR-MeX

- PR24 confirms introduction of BR-MeX incentive mechanism. Will place financial incentives on wholesalers to support market and deliver better experience for end customers

PR24 next steps

MOSL

Consultation open until 28 August

Final determinations

We are now inviting customers, stakeholders and water companies to respond to our draft decisions.

We invite you to tell us, by 12 noon on 28 August:

- what you think about our draft decisions;
- what we should consider in our final decisions; and
- anything else you would like to bring to our attention about the water companies' plans

Or there's a short survey on our website you can complete

PR24 draft determinations - Ofwat

PR24 draft determinations – NHH perspective

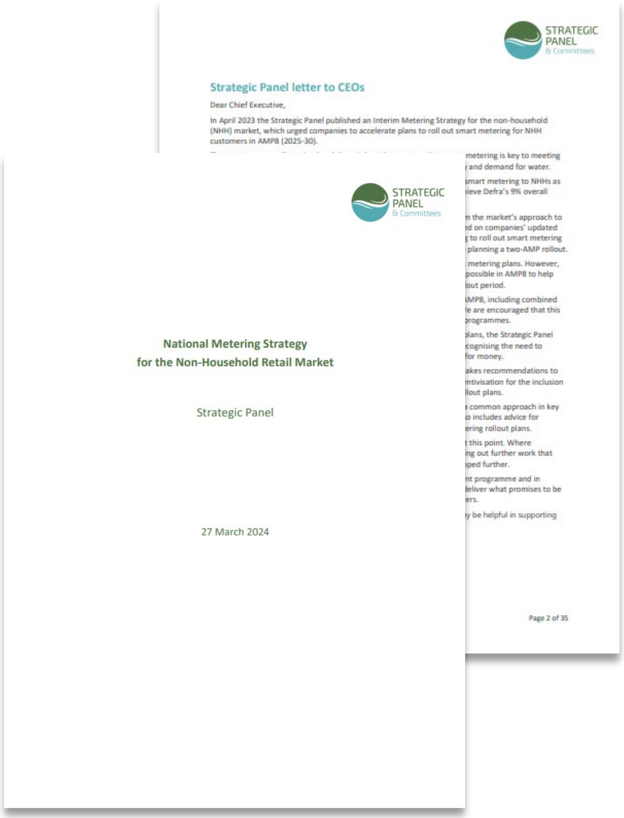
Part 1: smart metering

Martin Hall, MOSL

National Metering Strategy
Recap on key messages

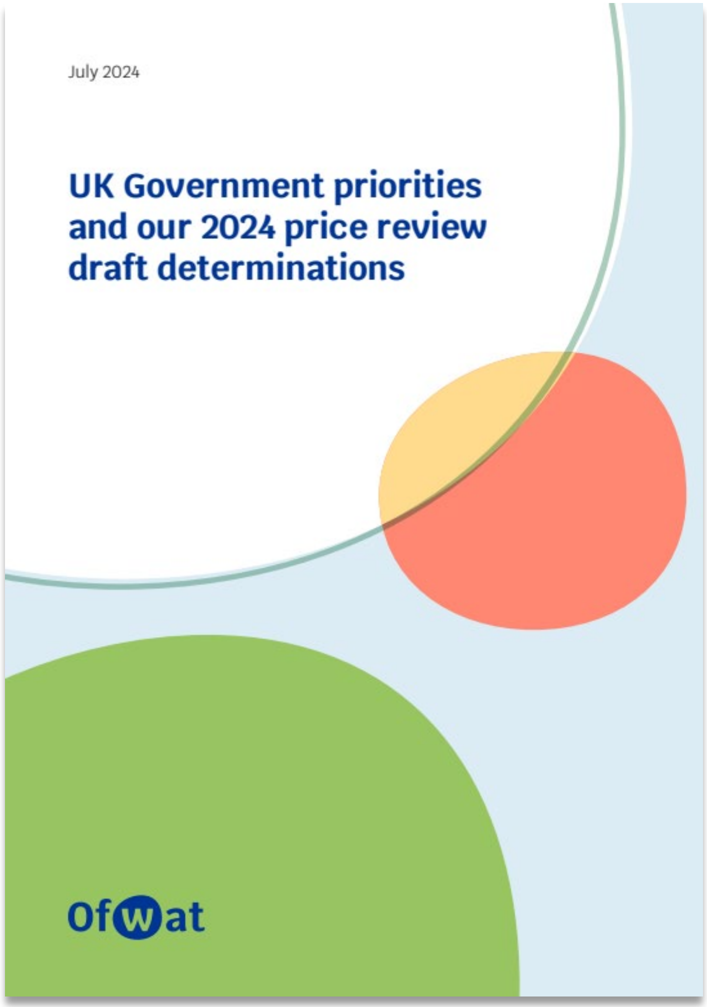
The Strategic Panel's National Metering Strategy for the NHH market emphasised:

- The importance of the NHH market in achieving Defra targets
- Smart metering is vital to delivering these targets, particularly the 13% of medium and large meters that account for 72% of NHH demand
- Importance of rolling out smart metering to households and non-households at the same time
- Negative impact that a 'patchwork' or 'piecemeal' rollout would have on Retailers and their customers – particularly national Retailers
- Therefore, the importance that DDs:
    - Have **specific rollout targets** for the NHH market, prioritising medium and large meters
    - **Recognise additional cost** to replace or upgrade medium and large NHH meters
    - **Include PCDs** to ensure medium and large meters are rolled out, not just cheaper and easier (but less impactful) small meters
    - **Ensure hard to read and long unread meters are addressed** during rollouts



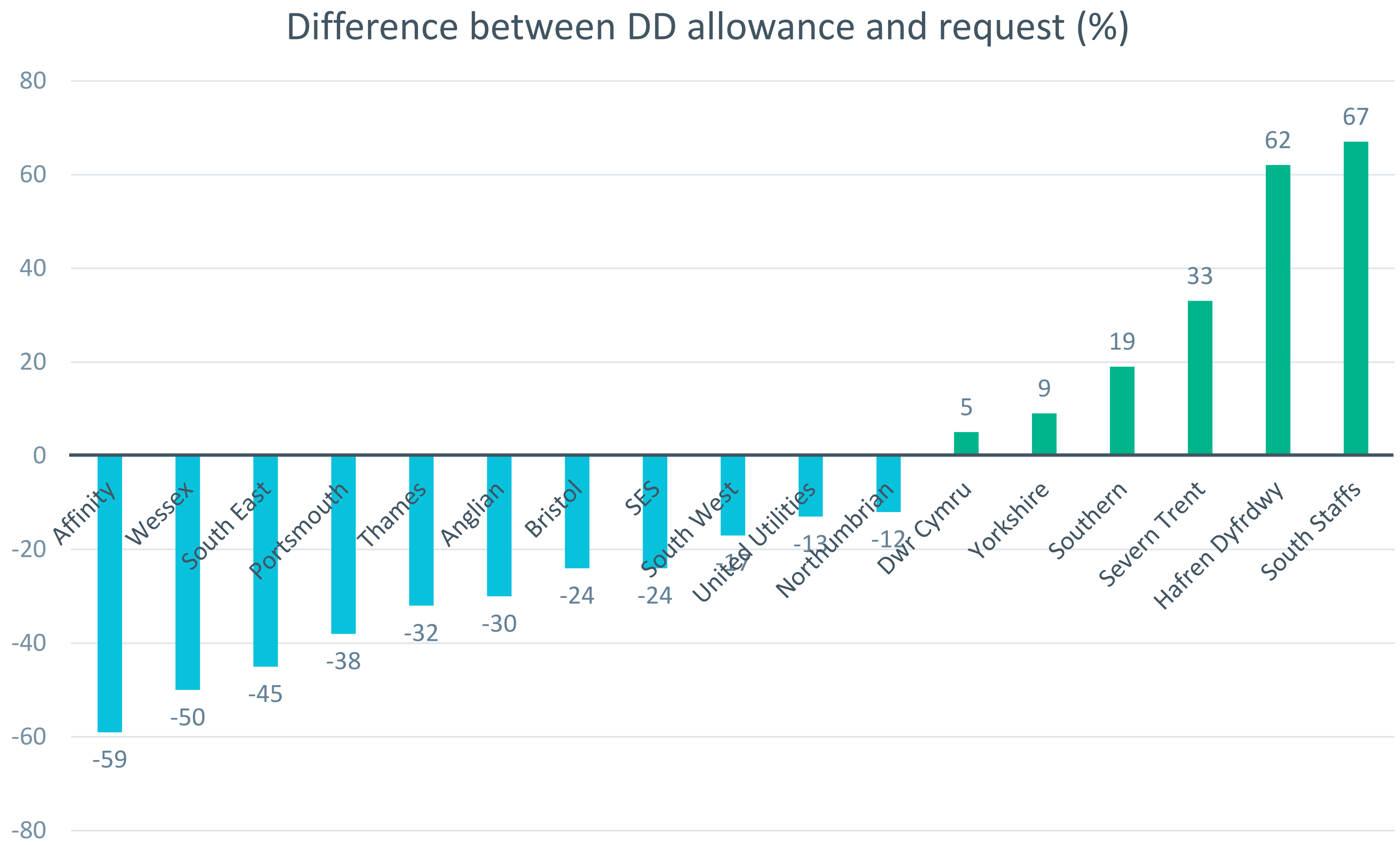
Draft Determinations
Our take-outs

- Recognises importance of NHH market and smart metering and aims to deliver “biggest smart meter rollout to date”
- Seeks to deliver 7.5% of Defra’s demand reduction target by 2030 (on the way to delivering interim objective of 9% by 2038)
- Wholesalers to deliver all 10.3 million proposed smart meters, but with 13% less budget overall
- Rollout target includes 7.7m upgrades and 2.6m replacements. Some companies’ allowances are higher than requested
- Uplift in base funding allowed to cover replacement costs of meters
- Companies to report on progress of rollout, including specific progress on NHHs (i.e. new meters, upgrades & replacements)
- However:
  - **Use of median costs insufficient** for replacing or upgrading medium and large meters
  - **No requirements for companies to address ‘problem meters’** (e.g. hard-to-read or long unread meters) during rollouts
  - **PCDs limited** to delivery of overall smart meter installations and data transmission success rate



Smart metering allowances
Enhancement costs

- Based on Ofwat econometric modelling on three unit rates (new, upgrade and replace)
- Significant variation, from 59% reduction (Affinity) to 67% uplift (South Staffs)
- Variation in definition of 'smart metering'?



MOSL

Anticipated responses and impacts

If the Draft Determinations remain unchanged at Final Determination stage, we anticipate Wholesalers are likely to:

- Prioritise delivery of smart metering to households and small NHHs, which are quickest, lowest-cost and easiest to replace
- Prioritise upgrading existing meters with ‘bolt-on’ technology, increasing risks relating to installations and long-term reliability
- De-prioritise medium and large meters until the end of the rollout, or not roll them out at all
- Ignore ‘problem meters’ (e.g. hard-to-read or long unread meters) during rollouts
- Fail data-related transmissions PCD (95% success rate) from the outset and on an ongoing basis

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Anticipated impacts:

1. ‘Patchy’ availability of smart metering for NHH customers
2. ‘National’ rollout hampered by challenges raising customer awareness and getting buy-in
3. Significant regional differences in data-related services available to NHH customers
4. Medium and large customers, which offer the biggest potential ‘win’ in terms of water efficiency, are last to benefit - if at all
5. Harder for companies to achieve business demand and leakage targets
6. 1,000s of NHH customers’ bills continue to be based on estimates rather than actual reads

MOSL/Panel smart metering ‘asks’ for Final Determinations

MOSL

1

Additional unit rates to allow for the higher costs of smart metering:

- Medium and large meters (i.e. in addition to existing rates for new, upgrades and replacements)
- Hard-to-read and ‘long unread’ meters

2

Additional requirement in the PCD to define number of installations for medium, large and hard-to-read meters (as above)

3

Review of current data transmission PCD (95%) based on evidence from trading parties

PR24 draft determinations – NHH perspective

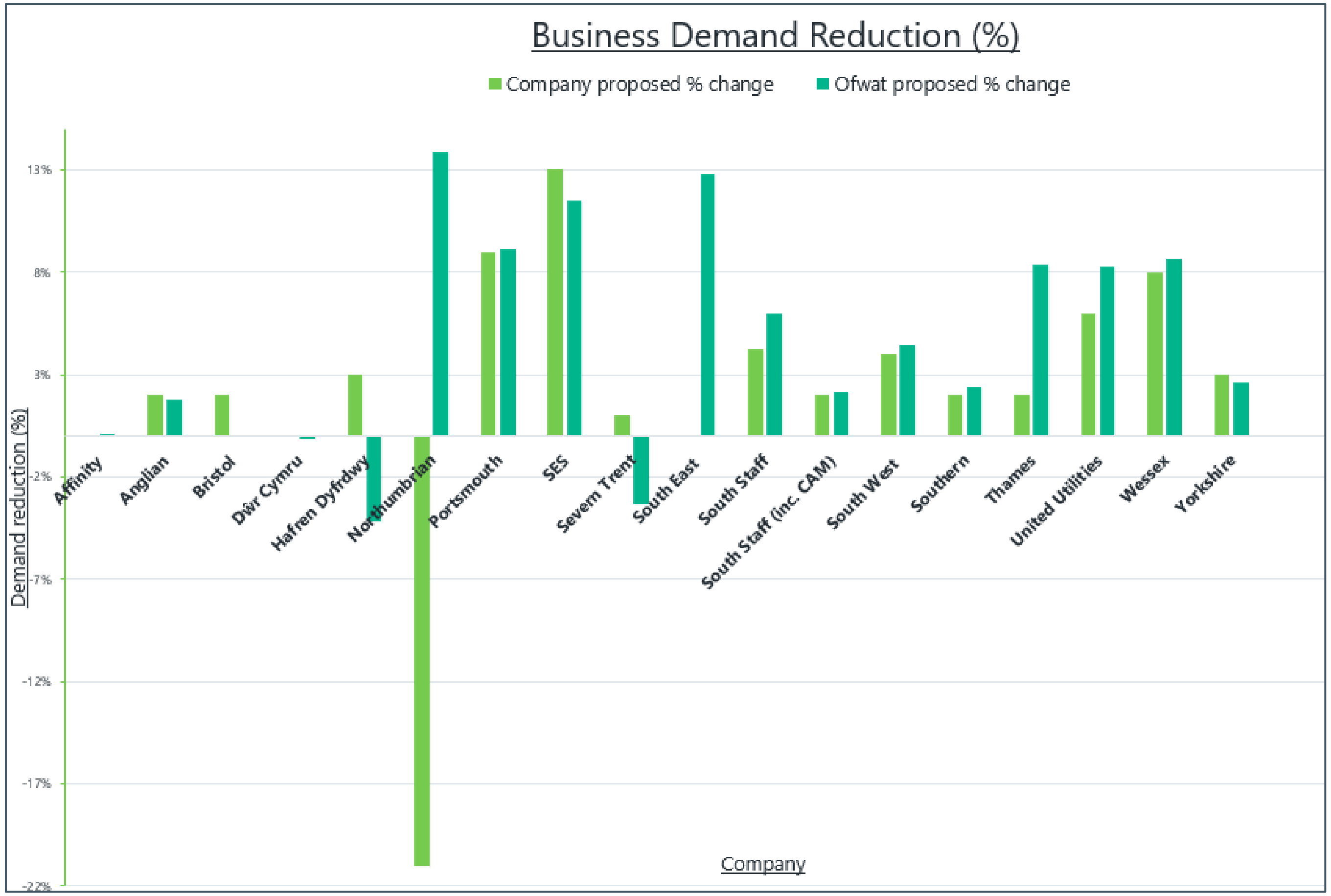
Part 2: water efficiency

Non-household reduction targets

- PR24 the first price review to include a performance commitment to reduce business demand

- This aims to reduce business demand by 7.5% by 2029-30 from the 2019-20 baseline

- Big variation across companies (Northumbrian a 14% reduction target, Affinity a 0% reduction)



Business demand reduction - performance commitment

Some 2024-25 baselines have been adjusted where forecast growth exceeds historical rates

An end of period adjustment mechanism will factor in if more than ±3% changes in demand is unrelated to NHH water efficiency measures and due to external changes in demand

A cap and collar on Outcome Delivery Incentive payments for all companies is set at ±0.5% water RoRE.

Companies must provide **evidence on collaboration** with retailers and third parties through a proforma on an annual basis.

Collaboration with Retailers - Reporting

MOSL

Proforma template – annual basis

Annex 2 Evidence of collaboration with others to deliver reduced demand - proforma

Evidence of collaboration with *[name of relevant retailer / other third party]* to deliver water efficiency / demand deductions

Purpose

This document sets out the options *[water company name]* has explored in collaboration with *[retailer / third party name]* to deliver water efficiency / demand reduction. It shall be returned to Ofwat with the company's annual performance report in accordance with the requirements of the company's business demand performance commitment definition.

Part A sets out the details of options explored. We expect the company to invite, using Part B, every retailer or third party that has engaged with to provide comments. The company should use one form per retailer / third party for all collaboration efforts within the reporting year. Where the company does not evidence its efforts, it will not be eligible for outperformance payments.

Part A: Details of operations explored

Table 1 sets out the options that have been explored and the outcome of those activities. The examples set out in the table are for illustration. The company may adjust the table to better reflect the activities it has undertaken.

Table 1: description of collaboration activities and outcomes

	Collaboration activity explored	Outcome
(1)	Engagement with retailer/ third party to develop initiatives	
(a)	[Please provide detail of option explored / activity undertaken]	
(b)		

(2)	Regular liaison platform with retailer/ third party	
(a)	[Please provide detail of option explored / activity undertaken]	
(b)		
(3)	Promoting direct communication between retailer and customers	
(a)	[Please provide detail of option explored / activity undertaken]	
(b)		
(4)	Other	

Part B: Retailer / other third party statement and further comments

I confirm that Table 1 [accurately reflects / does not accurately reflect] the engagement that *[retailer / third party name]* has had with *[water company name]*, and the outcomes of that engagement.

Table 2 sets out my further comments.

Table 2: Retailer / other third party's further comments.

[For example, comments may cover further detail in relation to:

- *the collaboration activities;*
- *how useful you found the collaborative experience; and*
- *any other things that you think the water company could do to help you reduce your water consumption.]*

Name:____________________

Position: ____________________

Business contact details: ____________________

Through this proforma that Ofwat has implemented, Wholesalers must demonstrate that they have explored options to collaborate with retailers and third parties.
Retailers and third parties will be contacted to ensure that the proforma is as stated.

Anticipated responses and impacts

MOSL

If the Draft Determinations remain unchanged at Final Determination stage, we anticipate:

- There is a risk wholesalers are unable to meet the business demand reduction (and leakage) targets without changes to smart metering funding which would enable visibility of opportunities to reduce demand
- Uncertainty for retailers (and third parties) on their role in the delivery of NHH water efficiency measures
- Large variations in ambitions and delivery of NHH water efficiency measures across regions
- Risks to the delivery of Water Resources Management Plans (WRMPs)

MOSL/Panel water efficiency ‘asks’ for Final Determinations

MOSL

1. We are concerned there is a disconnect between the ambitious performance commitment target to reduce business demand by 7.5% by 2030 and the funding to enable it (e.g. around smart metering)

2. Support the end of period adjustment mechanism to factor in ±3% changes in demand is unrelated to NHH water efficiency measures and due to external changes in demand (but not as a reason to reduce ambition)

3. More clarity in the final determinations around collaborative delivery of NHH water efficiency measures with retailers (or third parties) where there are clear benefits of a market led approach (multi-site customers etc)

Discussion 1: smart metering and water efficiency (minutes)

MOSL

1) Will the proposed funding enable the delivery of wholesalers NHH smart metering plans?
2) Would you value a separate PCD for NHH / larger meters?
3) Are the business demand reduction targets for 2030 appropriate/achievable?
4) Is there enough detail on collaboration around NHH water efficiency?

PR24 draft determinations – NHH perspective

Part 3: BR-MeX

BR-MeX – business customer and retailer measure of experience

MOSL

- New incentive at PR24, building on the existing R-MeX survey

Components:

- B-MeX: Monthly undertaken survey which will be commissioned and run by the market operator MOSL from April 2025
- R-MeX: A twice-yearly survey of retailers on their experience of service levels from wholesalers carried out by MOSL
- MPF metrics: One or more measures of wholesaler performance, under the reformed MPF. Further work to be undertake to understand which metrics could be included and how their scores will be calculated.

Weighting:

BR-MeX level of incentives

Company	BR-MeX high case (rewards) annual average £m	BR-MeX low case (penalty) annual average £m	C-MeX Rewards annual average £m	C-MeX Penalties annual average £m	BR-MeX total amount £m across AMP8
Anglian Water	11.50	-11.50	28.75	-28.75	57.50
Northumbrain Water	6.33	-6.33	15.82	-15.82	31.64
Severn Trent Water	13.97	-13.97	34.93	-34.93	69.85
South West Water	5.53	-5.53	13.83	-13.83	27.65
Southern Water	8.12	-8.12	20.29	-20.29	40.58
Thame Water	21.54	-21.54	53.85	-53.85	107.70
United Utilities	14.88	-14.88	37.19	-37.19	74.38
Wessex Water	4.79	-4.79	11.98	-11.98	23.96
Yorkshire Water	9.72	-9.72	24.30	-24.30	48.60
Affinity Water	1.92	-1.92	4.79	-4.79	9.58
Portsmouth Water	0.60	-0.60	1.49	-1.49	2.99
South East Water	1.96	-1.96	4.41	-4.41	9.82
South Staffs Water	0.62	-0.62	1.55	-1.55	3.10
SES Water	0.37	-0.37	0.93	-0.93	1.86

- Incentive increase to ±0.2% of RoRE (return on regulated equity)
- This is up from +0.05% to -0.10% RoRE in PR24 methodology
- Compares to ±0.5% appointee RoRE for household C-MeX)

MOSL/Panel BR-MeX ‘asks’ for Final Determinations

1. The uplift in the strength of the incentive and symmetrical penalties/rewards under BR-MeX appear positive.

2. MOSL will continue to work closely with Ofwat on the MPF metrics that could form part of BR-MeX to ensure the overall measure helps increase wholesaler performance in key areas relevant to the market.

3. Current view is MPF metrics could form part of BR-MeX from when it launches in April 25 with M12, M15/18 the leading candidates.

Discussion 2: BR-MeX (minutes)

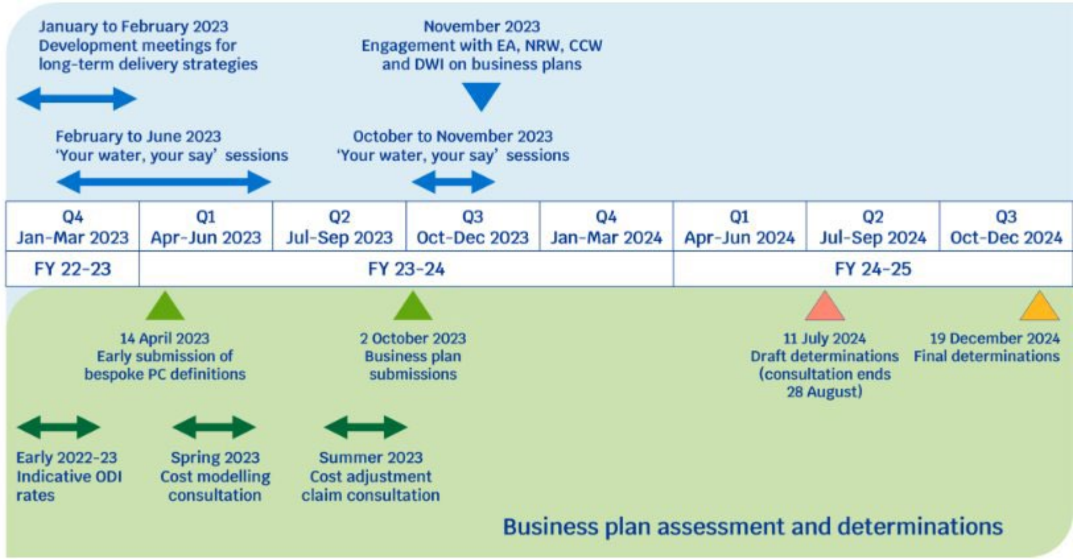
1) Will the proposed level of incentive enable the desired service improvements to NHH customers?

2) What MPF metric(s) may be useful and what should be their weighting?

Next steps

Next steps

- Ofwat has invited customers, stakeholders and water companies to respond to draft determinations by 28 August 2024. MOSL will be responding.
- After considering responses Ofwat will publish a final decisions by the 19 December 2024. If necessary Ofwat will delay final determinations until January 2025.
- Final determinations will take effect from April 2025 and will be reflected in bills.
- If a company does not accept final determinations, it can ask Ofwat to refer its decisions to the Competition and Market Authority (CMA).



Thank you